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Phillips, Hager & North Ltd.

Investment Counsellors

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PHILLIPS, HAGER & NORTH TRUST

1967 Annual Report

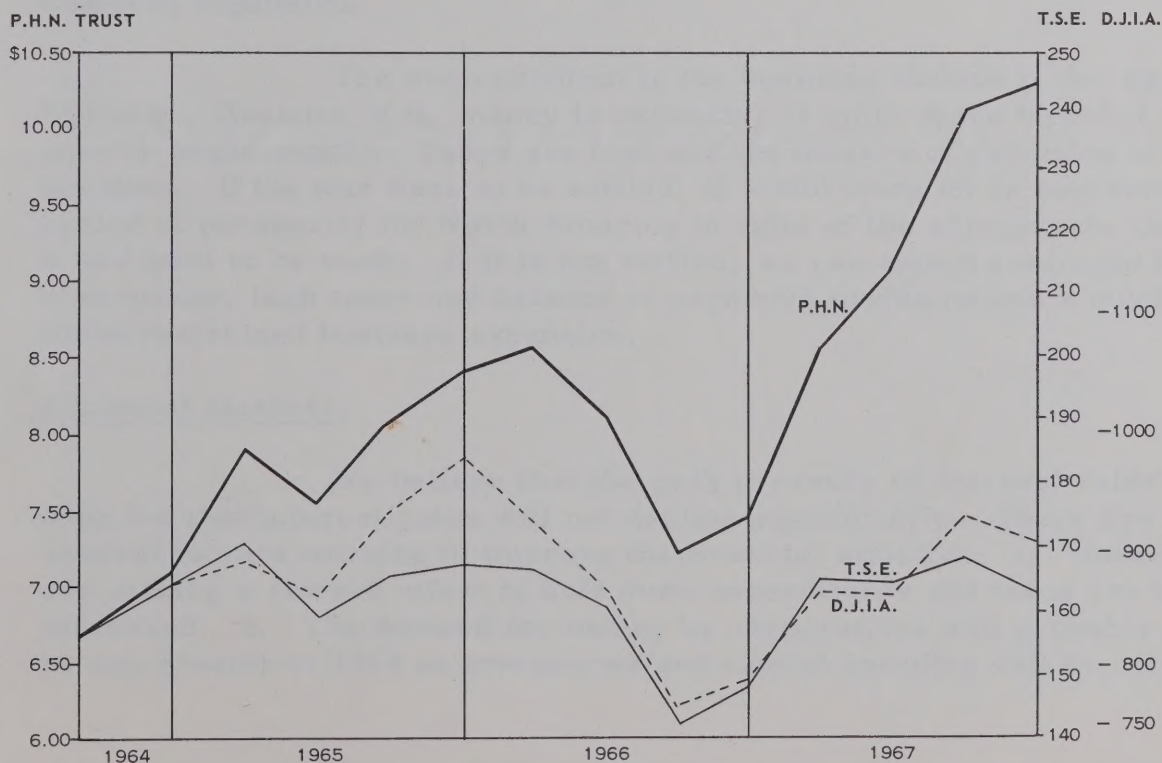
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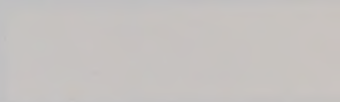
To Our Shareholders:

We are pleased to report that 1967 was a very successful year for the Phillips, Hager & North Trust.

The net asset value of the Fund rose 37.6% from \$7.44 per share to \$10.24 per share. During the year the Dow Jones Industrial Index advanced 15.2% while the Toronto Stock Exchange Industrial rose only 9.9%. Since the Fund reinvests all income, about 3% per year should be added to the results of the indexes for comparison purposes. Net assets of the Fund increased from \$1,116,613. at the end of 1966 to \$2,587,643. at December 30/67.

The following chart illustrates the performance of the Phillips, Hager & North Trust, after allowing for all charges including performance fee, compared with the Dow Jones Industrial Index and the Toronto Stock Exchange Industrial Index.





Phillips, Hager & North Trust (Cont'd.)Outlook for 1968Economy:

From late 1966 to mid-1967 North American business suffered a mini-recession. In the last few months of 1967, business began a period of expansion. In our judgment, this expansion will continue through 1968. We expect this year to be one of significant real growth on a sound basis.

The key factor should be consumer spending. Personal savings rose to an unusually high rate last year and has since then levelled off. With personal incomes rising steadily, consumer spending will be healthy in 1968 even if the savings rate remains high. Surveys of consumer intentions indicate that this savings rate will decline somewhat in the coming year however. This would indicate an accelerated rate of consumer spending and will be a powerful impetus to the economy.

Last year corporations brought on stream a record amount of new capacity. At the same time they liquidated excess inventory by cutting back on production schedules. The result was a sharp drop in the average operating rate of North American industry and, with higher wage bills, a sharp drop in corporate profits. Since mid-1967, corporate profits have been climbing back slowly and we would expect a steady but not spectacular improvement in 1968. Capital spending for new plant and equipment should be relatively flat and inventory accumulation should be modest - all of which will make for a healthy, prolonged business expansion.

The main problem in the business outlook is the war in Vietnam. Because of it, money is expensive in spite of the fact that it is in ample supply. Taxes are high and the balance of payments is a problem. If the war were to be settled, it would bring on an unprecedented period of prosperity for North America in spite of the adjustments that would have to be made. If it is not settled, we can expect continued high cost money, high taxes and balance of payments problems and a much more restrained business expansion.

Financial Markets:

We believe that the peak pressure on interest rates is over but that interest rates will not decline significantly. There are several factors working to improve the financial situation: 1. Governments are making a sincere effort to hold down expenditures and taxes are being increased. 2. The demand for money by corporations will probably not be any greater in 1968 as inventories and capital spending will be relatively

Phillips, Hager & North Trust (Cont'd)

flat while corporations did a certain amount of precautionary borrowing last year. 3. Fears of inflation should lessen somewhat next year and consequently investors should be less hesitant to buy bonds. A great deal of money will come into the bond and mortgage markets when investors conclude that interest rates have passed their peak.

The reason we do not believe that interest rates will come down significantly, unless the war in Vietnam ends, is that the demand for mortgage money will continue to be exceptionally large in the next few years. We expect that housing starts will continue to expand in spite of expensive money and that any dramatic drop in interest rates would trigger a fantastic housing boom.

The stock market outlook continues to be moderately favourable. With business in an early stage of expansion and profits improving, the stock market fundamentals are sound. If the peak in interest rates has been reached, as we believe, this factor will be less of a drag in 1968.

We believe that certain of the very well known growth companies, selling at extremely high price earnings ratios, will be unattractive in the next year or two. Stocks of companies in the capital goods or defence industries also appear unattractive at this time. Because of the kind of business expansion we expect, we prefer to invest in companies associated with household formations and consumer spending.

Performance Bonus:

As you know, the managers receive a basic 4/10ths of 1% fee for the management of the Fund as well as a performance bonus of 1/10th of 1% for every 1% by which the performance of the Trust exceeds the average performance of the ten largest funds in Canada. You will recall that in the bear market year of 1966, the ten largest funds outperformed the Phillips, Hager & North Trust by 4.65%. We therefore had to make up this deficiency in 1967 before we were again entitled to a performance bonus.

This year the ten funds as a group performed better than the market. The average total return including reinvested dividends was 22.49% and the individual results ranged from 9.85% to 38.58%. Since the Phillips, Hager & North Trust had a total gain of 38.70% before performance fee, from \$7.44 per share to \$10.32 (it was \$10.24 after performance fee), the Fund's performance exceeded the average by 16.21%. It also exceeded each of the ten largest funds. Our performance fee was therefore based on exceeding the average of the ten largest funds by 11.56% after making up the deficiency from 1966.

As you can see from the summary of assets included in this report, the Trust used a small bank loan during 1967. This loan

Phillips, Hager & North Trust (Cont'd.)

contributed in a small way to the good performance for the year.

The interest associated with this loan along with the performance bonus offset the income earned by the Trust during the year. This will mean that our shareholders will have little income from the Trust to report for tax purposes for the year ended December 31/67.

In order to keep you up to date on the progress of the Trust and on our current investment policy, we are sending you this unaudited report. As soon as the 1967 annual audit is completed we will send you the audited financial statements of the Trust.

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Yours very truly,

PHILLIPS, HAGER & NORTH LTD.

A. Phillips

A. Phillips - President.

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SUMMARY OF ASSETS - DECEMBER 30, 1967

<u>No. of Shares or Par Value.</u>	<u>Security</u>	<u>Value</u>
2,300 shares	Drexel Enterprises	\$ 119,301.
2,500 "	Colgate Palmolive	119,250.
2,625 "	Russ Togs	116,392.
2,750 "	Famous Players	114,125.
1,500 "	Burns Detective	111,270.
2,300 "	Interstate Department Stores	110,952.
3,000 "	Lucky Stores	110,040.
3,000 "	Coronet Industries	104,820.
3,000 "	Ronson Corporation	99,990.
1,900 "	Unishops Inc.	99,313.
2,700 "	Ryder Systems	92,502.
2,000 "	Waddell & Reed	92,460.
1,400 "	Jonathan Logan	89,726.
2,300 "	Consolidated Freightways	82,823.
12,000 "	Rank Organisation	81,000.
2,600 "	Alcan Aluminium	73,775.
1,000 "	General Waterworks	73,100.
2,750 "	Supermarkets General	69,107.
1,000 "	Maclean Hunter Publishing	66,000.
1,200 "	Whirlpool Corporation	65,796.
1,000 "	Crown Cork & Seal	65,710.
1,500 "	Burlington Industries	62,895.
1,600 "	Carlisle Corporation	61,488.
4,200 "	John Labatt	61,425.
1,000 "	Chrysler Corporation	60,470.
2,000 "	Rothmans of Pall Mall	52,000.
1,000 "	H. J. Heinz	51,330.
4,500 "	John Inglis	50,062.
1,000 "	Philip Morris	47,840.
2,700 "	Dominion Textile	47,250.
1,000 "	Genesco Inc.	44,880.
10,000 "	Shoppers City	44,500.
800 "	Reynolds Metals.	43,216.
700 "	Ford Motors	40,257.
3,000 "	M. Loeb	38,250.
		\$ 2,663,315.
	Cash & Receivables	76,328.
	Gross Assets	\$ 2,739,643.
	Less Bank Loan	<u>152,000.</u>
	TOTAL ASSETS	<u>\$ 2,587,643.</u>
Net Asset Value Per Share		\$ <u>10.24</u>
Shares Outstanding 250,881		

